

STATE BUDGET AND CONTROL BOARD

REGULAR SESSION

MEETING OF June 17, 2008

ITEM NUMBER 2

AGENCY: Office of State Budget

SUBJECT: Notification of Potential Agency Deficit for Department of Corrections

The South Carolina Department of Corrections has notified the Office of State Budget of a potential General Fund deficit for FY 2007-08. At this time, the Department has estimated that deficit at \$4,315,434.

Proviso 63.11 of the FY 2007-08 Appropriation Act sets forth procedures for addressing potential agency General Fund deficits. Upon recognizing the potential for a deficit the agency, in consultation with the Budget and Control Board, is directed to develop a plan to eliminate or reduce the potential deficit. If the Board finds that the cause and likelihood of a deficit is unavoidable and beyond the agency's control, the Board may recognize a deficit, and upon doing so, shall notify the General Assembly of its determination.

The Department of Corrections has recurring General Fund appropriations of \$336,336,094 to support its primary mission. Salaries and fringe benefits comprise approximately two-thirds of the Department's overall expenditures. Medical and energy costs are also major expenditure items. The Department's carry forward funds from the previous fiscal year declined from \$8,081,177 for FY 2006-07 to \$621,325 for FY 2007-08. Activities that operate from other funds revenue include Prison Industries and Canteen, and other funds revenue for the current fiscal year is estimated at \$61.5 million. The Department has traditionally used surplus other funds revenue from these operations to support its primary mission.

The Department projects medical costs for inmates will increase by about \$5 million over last fiscal year. Gas and heating fuel expenses are anticipated to increase by approximately \$1 million. In addition, the Department indicates the cost of food may increase by as much as \$2 million.

The Department leaves FTEs vacant until such time that all expenses associated with the former employee's leaving (annual leave payout) have been paid from existing funds. The Department is limiting travel. In addition, although medical expenses are increasing at a rapid pace the Department's efforts to maximize Medicaid eligibility are helping to minimize the negative impact of these rising costs.

Other funds revenue totaling \$12.3 million is scheduled to be used to cover expenditure activities funded with State General Fund appropriations. Despite the use of these funds and the agency's efforts to contain costs the Department projects a deficit of \$4,315,434 for the current fiscal year. The Office of State Budget has been working with the Department to reduce the projected shortfall since early April.

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BOARD ACTION REQUESTED:

Pursuant to Proviso 63.11 of the FY 2007-08 Appropriation Act, determine that the operating deficit incurred by the Department of Corrections is unavoidable and recognize the operating deficit not to exceed \$4,315,434. Direct the Office of State Budget to continue to work with the Department to reduce the deficit.

ATTACHMENTS:

Agenda item worksheet; Letter from Jon Ozmint, Director, S. C. Department of Corrections dated 4/1/08; S. C. Department of Corrections FY 2007-08 Expenditure & Revenue projections; Proviso 63.11 of FY 2007-08 Appropriation Act

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

2008-08

For Meeting Scheduled for: June 17, 2008

Regular Agenda

1. Submitted By:

(a) Agency: Office of State Budget

(b) Authorized Official Signature: _____



2. Subject:

Notification of Potential Agency Deficit

3. Summary Background Information:

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4. What is Board asked to do?

Pursuant to Proviso 63.11 of the FY 2007-08 Appropriation Act, determine that the operating deficit incurred by the Department of Corrections is unavoidable and recognize the operating deficit not to exceed \$4,315,434. Direct the Office of State Budget to continue to work with the Department to reduce the deficit.

5. What is recommendation of Board Office involved?

The Office of State Budget recommends that pursuant to Proviso 63.11 of the FY 2007-08 Appropriation Act:

- A. The Board find that the operating deficits are unavoidable and due to factors which are wholly outside the control of the Department of Corrections
- B. Recognize the operating deficit not to exceed \$4,315,434.
- C. Notify the presiding officer of the House and Senate
- D. Direct the Office of State Budget to work with the Department of Corrections to reduce the deficit.

6. Recommendation of other office (as required)?

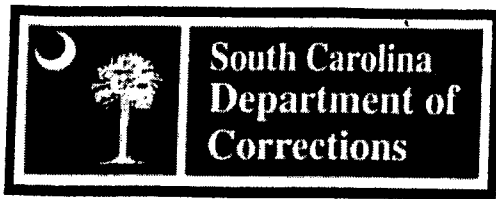
Authorized Signature: _____
Office Name: _____

Supporting Documents:

List those attached:

Letter from Jon Ozmint, Director, S. C. Department of Corrections dated 4/1/08
S. C. Department of Corrections FY 2007-08 Expenditure & Revenue projections.
Proviso 63.11 of FY 2007-08 Appropriation Act

List those not attached but available:



MARK SANFORD, Governor
JON OZMINT, Director

April 1, 2008

The Honorable Mark Sanford, Governor
Office of the Governor
Post Office Box 12267
Columbia, SC 29211

APR 03 2008

OFFICE OF STATE BUDGET

Dear Governor Sanford:

The South Carolina Department of Corrections (SCDC) strives to ensure the safety of the citizens of South Carolina, the employees of the Department of Corrections and the inmates remanded to its care while exercising fiscal prudence. The Agency continues to perform its duties in spite of funding levels that are among the lowest in the nation by any measure.

The Agency currently houses 23,745 inmates, an increase of 527 over last year. While there are economies of scale, certain costs are incurred for each new inmate added to the population, such as food and clothing. The inmate population also reflects the general population with regard to health issues – an aging population and continued growth of substance abuse/dependency drives up our medical costs each year.

Over the past year, we have also seen double digit increase in motor fuel costs (38.7%). The rise in motor fuel costs will result in an increase cost of \$500,000 this year.

Because of long standing legislative unwillingness to adequately fund any increases in operational budget lines such as inmate food, inmate transports and inmate health care, historically, we have operated on “slippage:” unused personnel funds created by periods of vacancies in funded positions. Our recent executive budgets have requested sufficient funding and proposed significant steps to begin remedying these unrealistic budget practices. Unfortunately, those proposals have not been adopted. The downturn in general economic conditions has meant more applicants for our open positions and a lower vacancy rate in personnel. While this has positive operational implications, it also means that our personnel costs are higher and we have less “slippage.”

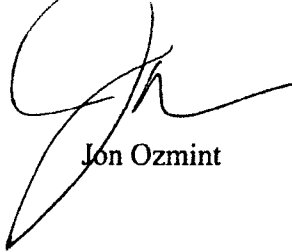
The decrease in open positions coupled with the rise in fuel costs, are projected to cost the Agency an additional \$2 million this year. Medical expenditures are expected to exceed appropriations by \$10 million and our utility and other costs will continue to rise with the price of fuel.

To offset these overages, the Agency will transfer surplus funds from Canteen and Prison Industries. The accounts will be depleted to the lowest points allowable by GAAP principles: we must maintain minimal balances for payroll and inventory replacement. The Agency also has \$3 million in “Fees and Fines” to use in the current fiscal year. Despite all of these efforts, we are projecting a deficit of \$2.5 to \$5 million.

The Honorable Mark Sanford, Governor
April 1, 2008
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Since we are already funded and staffed at record low levels and since all of our operational costs are among the lowest in the nation, we are requesting permission to report a deficit for FY 2007-2008.

Sincerely,

A handwritten signature in black ink, appearing to be 'Jon Ozmint', written over the printed name.

Jon Ozmint

JO:abb

cc: Mr. Converse Chellis, III
Mr. Richard Eckstrom
Senator Hugh Leatherman
Representative Dan Cooper
Senator Mike Fair
Representative Annette Young
Mr. Les Boles
Mr. Frank Fusco

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
FY 07-08 BUDGET
GENERAL FUND SUPPORTED ACTIVITIES
 FOR THE PERIOD ENDING May 16, 2008

OBJECT CLASS CODE	FY 07-08 General Fund Appropriations	FY 07-08 YTD Expenditures	FY 07-08 YTD Encumbrances	Unencumbered Balance	Total FY 07-08 Projected Expenditures	FY 07-08 Surplus (Deficit)
PERSONAL SERVICES						
SALARIES	185,556,719	172,056,517		13,500,202	187,803,462	(2,246,743)
INMATE EARNINGS	0	(525,347)		525,347	(560,000)	560,000
PI/WORK PRO REMITT(INMATES)	0	(2,161,256)		2,161,256	(2,200,000)	2,200,000
EMPLOYER'S CONT.	69,148,253	67,504,927		1,643,326	74,755,168	(5,606,915)
SUBTOTAL - PERSONAL SERVICE	\$254,704,972	\$236,874,841	\$0	\$17,830,131	\$259,798,630	(\$5,093,658)
OTHER OPERATING						
CONTRACTUAL SERV.	17,087,338	13,193,248	1,976,540	1,917,550	17,600,401	(513,063)
SUPPLIES AND MAT.	33,595,024	30,840,479	4,650,833	(1,896,288)	34,547,550	(952,526)
FIXED CHARGES	2,704,793	2,468,504	152,699	83,590	2,681,378	23,415
TRAVEL	44,339	22,489	1,117	20,733	40,517	3,822
EQUIPMENT	439,730	197,531	242,654	(455)	937,262	(497,532)
RENOVATIONS	0	0	0	0	0	0
CASE SERVICES	12,086,413	17,302,258	17,648	(5,233,493)	21,738,795	(9,652,382)
PURCHASED EVIDENCE	0	0	0	0	0	0
PETTY CASH	0	0	0	0	0	0
INT. - LATE CHARGES	0	0	0	0	0	0
HEAT LIGHTS POWER	0	0	0	0	0	0
TRANSPORTATION	13,836,054	13,394,457	3,934	437,663	14,673,000	(836,946)
PROSTHETICS	1,639,102	1,726,109	524,054	(611,061)	2,045,000	(405,898)
EMP SUGGESTION AWARDS	85,000	74,277	8,810	1,913	85,000	0
EQUIPMENT(UNDER 5,000)	0	0	0	0	0	0
	113,329	108,587	5,108	(366)	122,277	(8,948)
SUBTOTAL - OTHER OPERATING	\$81,631,122	\$79,327,939	\$7,583,397	(\$5,280,214)	\$94,471,180	(\$12,840,058)
NON-RECURRING FUNDS	670,000					670,000
CARRY FORWARD FROM FY 2007-08	621,325					621,325
TOTAL	\$337,627,419	\$316,202,780	\$7,583,397	\$12,549,917	\$354,269,810	(\$16,642,391)

Non-state funds used to support deficit						
Recycling Program						275,000
Special Funds						107,564
Motor pool						150,000
Social Security						569,150
SCAAP						975,243
Prison Industries						4,250,000
Canteen						2,600,000
Proviso 73.2 (Law Enforcement - Surcharge)						3,400,000
Total available - Other Funds						\$12,326,957
Net Surplus/(Deficit)						(\$4,315,434)

Non-Recurring funds exclude \$2 million dedicated to Capital projects.

SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
STATEMENT OF REVENUE AND EXPENSE
 BASED ON GENERAL LEDGER THROUGH MAY 16, 2008

SUBFUND	FY 2006-07	FY 2007-08	FY 2007-08	Projected	Funds
	Ending Balance	Projected Revenue	* Projected Expenses	Year End Balance	Available
3626 RECYCLING PROGRAM	235,411	305,656	177,270	363,797	275,000
3472 SPECIAL FUNDS	111,247	0	3,683	107,564	107,564
3197 MOTOR POOL	146,721	4,377	(74,573)	225,671	150,000
3872 SOCIAL SECURITY	405,150	164,000	0	569,150	569,150
5055 ALIENS ASST PROGRAM (SCAAP)	408,265	566,978	0	975,243	975,243
3405 PRISON INDUSTRIES	3,347,777	29,869,584	27,872,998	5,344,363	4,250,000
3408 CANTEEN	2,258,159	16,912,279	16,027,708	3,142,730	2,600,000
3468 LAW ENFORCEMENT - SURCHARGE (73.2)	305,078	3,161,416	26,741	3,439,753	3,400,000
3975 1 VICTIM ASSISTANCE FUND	372,035	144,801	328,311	188,525	0
3989 2 RESTITUTION CENTER	254,474	409,444	442,414	221,504	0
3770 3 COMMUNITY CONTROL	53,838	178,297	152,704	79,431	0
3958 4 SALE OF ASSETS	184,710	43,246	0	227,956	0
3948 5 OMNIBUS CRIMINAL ACT	(132,039)	1,313,739	1,197,737	(16,037)	0
3149 6 MAIN REPAIR REN	336,257	29,011	364,824	444	0
3959 7 FARM	(175,264)	4,743,100	4,065,314	502,522	0
3987 8 ADULT BASIC	1,658	140,000	141,658	0	0
4973 8 EIA	63,591	550,955	614,546	0	0
3035 8 EFA	370,992	2,763,450	3,134,442	0	0
3959 9 PALMETTO PRIDE	173,583	198,479	52,946	319,116	0
TOTALS	\$ 8,721,643	\$ 61,498,812	\$ 54,528,723	\$ 15,691,732	\$ 12,326,957

Notes - Subfund revenue dedicated to specified purposes

- 1 Restricted to victim notification and a portion used to match federal grant (SAVIN)
- 2 Restricted to operation of Restitution Centers
- 3 Used to operate 48 bed program at Coastal for DPPPS
- 4 Proviso 37.20 - funds retained by Department to offset renovation and maintenance capital expenditures
- 5 Shock Incarceration program
- 6 Obligated to building construction
- 7 First year Farm has shown surplus. Funds to be used for planting summer crops, feed supplements, dairy expansion and to make final payment on \$200,000 loan.
- 8 Restricted to Education Programs
- 9 Funds restricted to program expenses

*** Expenditures for Other Funds Operated Activities Only**

Other fund expenditures for General Fund supported activities not reflected in these figures.

FY 2007-08 Appropriation Act

Proviso 63.11

63.11. (BCB: Mid-Year Budget Reductions & Restricting the Rate of Expenditures) Any appropriations made herein or by special act now or hereafter, are hereby declared to be maximum, conditional and proportionate, the purpose being to authorize expenditures not to exceed the amounts named herein, if necessary, but only in the event the aggregate revenues available during the period for which the appropriations are made are sufficient to pay them in full. The State Budget and Control Board is directed to survey the progress of the collection of revenue and the expenditure of funds by all agencies, departments and institutions. If the Budget and Control Board determines that a year-end aggregate deficit may occur by virtue of a projected shortfall in anticipated revenues, it shall utilize such funds as may be available and required to be used to avoid a year end deficit and thereafter take such action as necessary to restrict the rate of expenditure of all agencies consistent with the provisions of this section. No institution, activity, program, item, special appropriation, or allocation for which the General Assembly has provided funding in any part of this act shall be discontinued, deleted, or deferred by the Budget and Control Board. Any reduction of rate of expenditure by the Board, under authority of this act, shall be applied as uniformly as may be practicable except that no reduction shall be applied to funds encumbered by a written contract with an agency not connected with the State Government. No such reduction shall be ordered by the State Budget and Control Board while the General Assembly is in session without first reporting such necessity to the General Assembly and the General Assembly has taken no action to prevent the reduction within five statewide session days of formal written notification.

As far as practicable all departments, institutions, and agencies of the State are hereby directed to budget and allocate appropriations as quarterly allocation so as to provide for operation on uniform standards throughout the fiscal year and in order to avoid an operating deficit for the fiscal year. It should be recognized that academic year calendars of state institutions will affect the uniformity of the receipt and distribution of funds during the years. The Comptroller General or the Office of State Budget shall make such reports to the Budget and Control Board as they deem advisable on any agency which is expending authorized appropriations at a rate which predicts or projects a general fund deficit for the agency. The Budget and Control Board is authorized and directed to require any such agency, institutions or department to file a quarterly allocations plan and is further authorized to restrict the rate of expenditures of the agency, institution or department if the board determines that a deficit may occur. It is the responsibility of any such agency to develop a plan, in consultation with the Budget and Control Board, that eliminates or reduces a deficit. Should the Budget and Control Board make a finding that the cause of and likelihood of a deficit is unavoidable due to factors which are wholly outside of an agency's control, then the board may determine that the recognition of an agency deficit is appropriate and shall notify the General Assembly of such action or the presiding officer of the House and Senate if the General Assembly is not in session. Upon receipt of such notification from the Budget and Control Board, the General Assembly may authorize supplemental appropriations from any surplus revenues which existed at the close of the previous fiscal year. If the General Assembly fails to take

action, then the finding of the Budget and Control Board shall stand, and the actual deficit at close of the fiscal year shall be reduced as necessary from surplus revenues or surplus funds available at the close of the fiscal year in which the deficit occurs and from funds available in the Capital Reserve Fund and General Reserve Fund, as required by the Constitution. If the Budget and Control Board finds that the likelihood and cause of a deficit is the result of agency management, then the bond of state officials responsible for management of the agency involved shall be held liable therefor and the board shall notify the Agency Head Salary Commission of such finding. In the case of a finding that a projected deficit is the result of the management of the agency, the Budget and Control Board shall take immediate steps to curtail agency expenditures in such a manner so as to bring expenditures in line with authorized appropriations and avoid a year end operating deficit.